FOR ADVISORS ONLY

An Advisor's Guide to the Essential Passive Income Concept (EPIC)

MAXIMIZING YOUR ACCESS
TO THE SMALL BUSINESS TAX RATE

Desjardins
Insurance
Life • Health • Retirement

Important Information

This guide is intended to provide general information about the Essential Passive Income Concept but is not a substitute for advice from qualified legal, taxation, accounting or other professional advisors. While the Essential Passive Income Concept can provide benefits to individuals and corporations, the legal and taxation issues are complex. No one should proceed with the implementation of one or more of the financial product solutions as set out in the guide without a comprehensive review of the legal, taxation and accounting implications of their situation. For individual circumstances, consult with your legal, taxation and accounting professional advisors.

Desjardins Insurance's comments are based on legislation and administrative policies published by the tax authorities as at June 2021 but do not cover every possible situation. Desjardins Insurance has taken reasonable steps to ensure the accuracy of this information, but makes no representation or warranty as to such, as the information may no longer be up-to-date, complete or accurate.

Executive Summary

The majority of small businesses in Canada are carried on through Canadian-controlled private corporations (CCPCs). Many business owners and incorporated professionals rely on the financial success of their corporation to provide income for their families and savings for retirement. Starting in January 2019, the federal rules that apply to passive corporate investments changed to gradually reduce access to the small business deduction (SBD) as a corporation's passive income grows, which has exposed many businesses to increased corporate tax. The application of the passive investment tax rules mean that business owners are looking to their professional advisors for strategies to minimize the adverse effects of these rules.

Until recently, the ability of CCPCs and any associated corporations to claim the SBD has allowed them to pay tax on up to $500,000 of active business income (ABI) at the small business tax rate. The small business limit or criteria to access it can be different for some provinces.[1] Under the post-2018 regime, whenever the passive income that a CCPC and any associated corporations earned in the previous year is more than $50,000, access to the SBD will be reduced. Once the previous year's passive income reaches $150,000, none of the corporation's ABI will qualify for the small business tax rate. The SBD erosion rate is a reduction in the small business limit of $5 for every $1 of passive investment income earned by the corporation exceeding $50,000. This can have a significant adverse effect on the corporation's annual tax bill.

For the convenience of readers, a Glossary with the high-lighted key terms in the document can be found at the end of the Guide's main text.

Corporate planning approaches have been revised to find solutions that allow business owners to maintain access to the SBD on a tax-effective basis while ensuring that the long-term corporate and personal planning objectives of the shareholders are met. Product-focused solutions that can reduce exposure to the passive investment tax rules include pension plans for shareholders, life and living benefits insurance, and tax-deferred corporate investments.

The **Essential Passive Income Concept (EPIC)** is a flexible, strategic planning approach exclusively offered by Desjardins Insurance that provides a tailored suite of solutions that can reduce a corporation's current and future taxes, provide comprehensive risk management tools, and enhance the shareholder's estate and retirement options.

[1] As of January 1, 2018, the small business limit in Saskatchewan was increased from $500,000 to $600,000. For Quebec purposes, the total number of hours worked by employees (including part-time employees) must at least 5,500 hours to benefit from the small business tax rate. When the amount of hours is between 5,500 and 5,000 hours, access to the SBD is reduced on a straight-line basis.

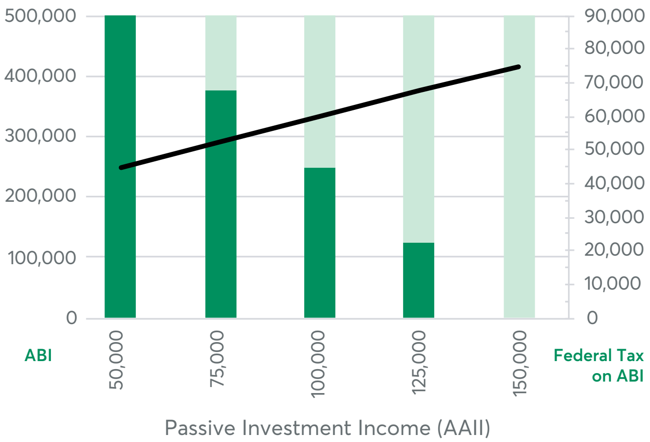
Legislative background

The 2018 federal budget introduced a set of new passive income rules in Canada to restrict the SBD for CCPCs (and any associated corporations) that earn more than $50,000 of passive investment income. For tax years after 2018, a corporation's access to the SBD depends on its passive investment income, as determined by its adjusted aggregate investment income (AAII) for the previous taxation year. For passive investment income between $50,000 and $149,999, the reduction in the small business limit is $5 for every $1 of passive investment income. Once the previous year's passive income reaches $150,000, all of the corporation's ABI will be taxed at the higher general corporate rate instead of the lower small business tax rate.

It is important to note that the existing rules regarding access to the SBD have remained in place for large corporations. For tax purposes, a large corporation is any corporation that alone or as part of a group of associated corporations has taxable capital of $10 million or more. When a large corporation's taxable capital is between $10 million and $15 million, the small business limit is reduced on a straight-line basis. Once an individual large corporation or associated group has taxable capital in excess of $15 million, access to the SBD is lost.

Here is how the passive investment income rules can affect a corporation's SBD level and increase the total tax paid as the corporation's passive income grows:

Federal tax on $500,000 ABI with varying AAII[2]



AAII	ABI at federal SBD rate	ABI at higher federal rate	Federal tax on ABI
50,000	500,000	–	45,000
75,000	375,000	125,000	52,500
100,000	250,000	250,000	60,000
125,000	125,000	375,000	67,500
150,000	–	500,000	75,000

Legend:
ABI: Active Business Income
SBD: Small Business Deduction
AAII: Adjusted Aggregate Investment Income. (This is a factor in determining the effect of the passive investment income rules on a Canadian-controlled private corporation.)

[2] Federal tax rates for corporations as at November 2020.

Unless proactive planning measures are taken, a corporation will have to pay tax at a higher rate on its growing ABI. This will trigger additional taxes on its active business income, which ultimately means that less money will be available for the business owner's business succession and retirement needs.

A brief summary of the association rules

If a business owner's corporate structure only involves one corporation, determining how the passive investment rules will apply is usually straightforward. Since associated corporations share access to the SBD, things are more complicated once the issue of whether two or more corporations are associated for tax purposes arises. It is important for a business owner's advisors to have a clear understanding of the corporate structure and its complexity when making planning recommendations.

A key factor in determining whether corporations are associated is control of a corporation by a person (e.g., an individual or a corporation) or group of persons. Control over a corporation can be exerted either directly or indirectly in any way and is addressed in several provisions of the federal *Income Tax Act* (ITA).[3] *De jure control* occurs when a person owns enough shares to have the majority of voting power, *economic control* establishes a control test based on greater than 50% of the fair market value of all shares or common shares and *de facto* (or factual) control arises when a corporation is subject to any direct or indirect influence that, if exercised, would result in actual control being exerted. In addition, under certain circumstances, a person or group of persons may have deemed control of a corporation under the tax rules.

[3] See sections 251 and 256 of the *Income Tax Act*, RSC 1985, c 1 (5th Supp) as amended from time to time. Hereafter "ITA". See also Interpretation Bulletin IT-64R4 (Consolidated) on "Corporations: Association and Control".

Not surprisingly, given the often complex nature of issues of ownership and control of corporations, it is not up to the financial advisor to establish whether the corporations are associated. This is the responsibility of the client's qualified taxation professionals as they have the information regarding the client's corporations that are associated. This information is required for the purposes of the corporation's income tax returns.

The role of adjusted aggregate investment income (AAII)

The passive income rules introduced the concept of AAII[4] as an integral component in determining whether a successful business's growing investment holdings will have an adverse effect on access to the SBD.

AAII includes interest income, taxable capital gains (net of allowable capital losses from the current year), net rental income, royalties and taxable dividends received by a corporation other than dividends received from connected corporations.[5] The AAII doesn't include taxable capital gains and allowable capital losses from the sale of assets used in an active business.

To determine the corporation's eligibility for the SBD in the current taxation year, the AAII earned by the corporation in the previous year is used. Thus, a corporation's AAII for a taxation year beginning on January 1, 2019 will use the corporation's income from its 2018 taxation year. When two or more corporations are associated and share access to the SBD, the combined AAII of the associated corporations will be used.

The complex nature of the AAII calculation means that qualified taxation or accounting professionals should be engaged.

[4] The definition of AAII is found in section 125(7) of the ITA.

[5] Under the ITA, corporations are considered to be connected where either a corporation controls another corporation from which it receives a dividend or where a corporate shareholder owns more than 10% of the votes and value of any class of shares of another corporation. Dividends from connected corporations are not included in the calculation of AAII and do not affect the availability of the SBD for an associated group of companies. See subsection 186(4) of the ITA.

Meeting changing business owner needs - Research by Desjardins Insurance

To better understand current market needs, Desjardins Insurance commissioned Environics Research[6] to talk with a select group of advisors and allied professionals across Canada about how the passive investment rules were affecting clients and identify "hot spots" where Desjardins Insurance could provide solutions.

The focus group provided valuable insights in terms of actions they were taking in a number of key planning areas. They have undertaken active reviews of a client's corporate structure to assess whether changes were required to accommodate the passive income regime. New tax planning options are considered to help minimize the adverse effect of the passive income rules on the client's tax situation, both at present and in the future. In addition, the participants disclosed that they are prepared to explore alternatives to more traditional corporate investment strategies as potential options for corporate investments.

During the research, the participants identified an array of planning strategies that they were proposing to clients in response to the passive investment rules. Those solutions included:

- Restructuring the corporation, including doing an estate freeze
- Paying off debt to reduce the corporation's investment holdings and free up money that was being used to pay the principal and interest costs
- Having the corporation acquire life insurance (term or permanent, depending on the identified insurance need) on the lives of shareholders or key employees
- Using excess capital to finance commercial real estate to be used in the corporation's operations or to generate rental income[7]
- Assessing whether critical illness insurance on shareholders or key employees would enhance the corporation's overall risk management arrangements
- Increasing the shareholder's retirement savings via RRSP contributions or, as an alternative, pension plans for shareholders
- Redesigning the corporation's investment holdings to include options such as corporate class shares and other tax-efficient alternatives

As part of the research, Desjardins Insurance showed the participants a preview of the suite of product solutions that evolved into EPIC. Unlike many other approaches to corporate planning to address tax and other issues arising from the passive investment income rules, the EPIC precursor was designed to target three key areas of concern: risk management, strategic tax reduction and tax-efficient retirement for key shareholders.

After the research project was completed, Desjardins Insurance re-imagined the EPIC predecessor concept to incorporate the concerns and considerations raised by the research participants.

[6] Focus group conducted by Environics Research Group Ltd. in Q2-2020.

[7] However, generally, rental income is considered AAII. Please consult a taxation professional.

How EPIC works

EPIC is a dynamic planning approach exclusively offered by Desjardins Insurance that will assist advisors and their clients to assess the potential effects of the passive investment income rules on a corporation. EPIC includes a tailored suite of solutions that can help reduce a corporation's current and future taxes, provide comprehensive risk management tools and enhance a shareholder's estate and retirement options.

Strategic options to minimize the impact of the application of the passive income rules include:

- **Pension plans for shareholders** – Pension plans for shareholders are defined benefit pension plans designed for one person established by a corporation[8] to provide a retirement income to a shareholder who meets the conditions. The plan contributions are more than RRSP allowable contributions, and the guaranteed retirement income will be based on the expected benefit of the plan. The plan member may be able to buy back years of service within the corporation after 1989. The past service buyback is first funded by transferring an amount from the plan member's RRSP, subject to the RRSP balance. If the past service buyback amount is more than the plan member's current RRSP balance and the plan member has unused RRSP contribution room, the RRSP can be topped up and the funds transferred to the plan. The corporation will be responsible for the ongoing capitalization of the plan, which will be supervised by an actuary. The plan administration costs can be charged to the corporation and are deductible corporate expenses. Since pension plans for shareholders are registered pensions, the assets held in the plans are protected from the creditors of the sponsoring corporation. Desjardins Insurance is an established plan provider whose comprehensive implementation and administration services include the mandatory actuarial supervision.
- **Insurance solutions** offered as part of EPIC include life insurance and critical illness insurance, which can be tailored to meet the risk management needs of the corporation and the shareholders.

[8] Pension plans for shareholders must comply with the applicable provisions of the ITA and the pension legislation for the province or territory where the sponsoring corporation is located.

- *Life insurance*—both term and permanent—provides many advantages to a corporation and its shareholders. The tax-free death benefit can provide liquidity upon the death of a shareholder or key employee. The tax-deferred growth of accumulation savings inside a permanent policy can reduce a corporation's passive income each year by the transfer of surplus earnings to the policy through premium payments. The increasing cash values inside a permanent policy can also be used for corporate needs during the lifetime of the insured individual.[9] Subject to other corporate needs, the cash values could help to enhance the retirement income of a key shareholder. From a business succession perspective, life insurance is a cost-effective means of funding a buy-sell agreement. It can be used to fund a non-taxable dividend to a deceased shareholder's estate to provide cash in the estate. In addition, if an insured shareholder or key employee ceases to be involved with the corporation—whether due to ending an employment relationship, ceasing to be a shareholder, retirement or another reason— arrangements can be made to transfer the policy to the insured individual. Since the policy transfer could generate a policy gain for the corporation and a taxable benefit for the shareholder or employee, the corporation and the insured individual should obtain advice from qualified legal and taxation professionals before undertaking such a policy transfer.

[9] There can be tax consequences as the result of the lifetime uses of the cash values of a corporate-owned life insurance policy. Consult with a qualified taxation professional as part of the planning process.

- *Critical illness insurance* can protect a corporation from financial losses due to the critical illness or untimely demise of a shareholder or key employee. This insurance provides a non-taxable lump-sum payment if the insured person is diagnosed with one of the critical illnesses covered by the policy. Depending on the policy features, an advance on the coverage amount may be available in the event a less severe critical illness is diagnosed. Riders available with critical illness insurance include various return of premium options. As with a corporate-owned life insurance policy, a critical illness policy can be transferred to the insured individual once the corporation no longer requires the coverage. Such a transfer would require the legal and taxation advice for both the corporation and the insured person on the potential consequences.
- In addition to traditional corporate-owned critical illness insurance options, the Executive Health Plan (EHP) from Desjardins Insurance provides a well-designed and comprehensive shared ownership structure that allows a shareholder or key employee to own a critical illness policy jointly with the corporation. As a part of this concept, the corporation will receive a non-taxable benefit if the shareholder or key employee is diagnosed with a critical illness or dies. If the shareholder or key employee remains healthy until the end of the needed coverage period, they will get a non-taxable health benefit.

• **Investment solutions** to reduce the impact of the passive investment income rules can include using Desjardins Insurance's Guarantee Advantage® (GA). A portion of the corporation's fixed income investments are reallocated into a market-linked term investment product whose returns are tied to a basket of securities in targeted or diverse industry sectors. GA offers a guaranteed minimum return, depending on the option selected, and the principal is guaranteed at maturity or death. The product provides the potential for a higher return compared to a fixed-rate term investment and can help to reduce the volatility of the corporation's investment portfolio over time. A GA can be surrendered before the deposit maturity date if the corporation's liquidity needs change. The early surrender will be subject to market value adjustments. Variable income (linked to the basket) is not taxed until surrender of the GA deposit or, if the GA deposit is reinvested, the contract's anniversary date following the deposit maturity date. Timing of the taxation of the variable income will depend on the options chosen by the corporation in consultation with its investment and other professional advisors.

• Contributions to pension plans for shareholders, insurance premiums and deposits to the investment product or account will be funded from the corporation's surplus earnings or a reallocation of existing investment assets.

The potential tax savings for the corporation will vary over time, depending on the combination of EPIC product solutions that it elects to implement. As always, tax outcomes cannot be guaranteed as the prevailing legislation and administrative practices of the tax authorities may change, as well as the current and future investment and other planning objectives of the corporation. For example, a corporate reorganization or an estate freeze by a key or sole shareholder would require a re-evaluation of the corporation's risk management and investment strategies. Thus, as with any complex planning, ongoing monitoring by the corporation and its professional advisor team is recommended.

Many business owners and incorporated professionals rely on the financial success of their corporation to provide income for their families and savings for retirement.

Who can benefit from EPIC

EPIC is only available for clients who have an **operating business** or **professional corporation** that is a CCPC. While many corporate structures will only involve a single private corporation, other clients may have a more complex structure with a holding corporation or, in some cases, two or more operating corporations that are considered to be associated under the tax rules.

Many business owners and incorporated professionals rely on the financial success of their corporation to provide income for their families and savings for retirement. Since every client's situation is unique, here are some guidelines regarding the EPIC suite of integrated product solutions:

- **Pension plans for shareholders** – The typical candidate for such a plan for retirement purposes is a successful business owner or incorporated professional who owns at least 10% of the issued shares of a class of share capital of a company or a person not dealing at arm's length with this shareholder. The average age is 45 years or older, although some younger individuals may find that getting an early start on retirement savings through a registered pension plan is a good fit. The shareholder's annual salary as reported on a T4 is over $75,000, although certain clients with a longer employment history at a lower salary may still benefit from such a plan. For those clients, a past service buyback for years after 1989 may be a good strategic option.
- **Life insurance**—*both term and permanent*—can provide tax-free liquidity to a corporation on the death of a shareholder or key employee. All types of life insurance (Term Life, Guaranteed Whole Life, Participating Life, Universal Life) can be part of the solution depending on the needs and the corporation's capacity to pay premiums. The maximum issue age will depend on the product purchased, while premiums will reflect the age, insurability, sex, smoking status, and family history of the insured person. The death benefit received by the corporation can guarantee the continuity of the company and help fund the search for a replacement on the death of a shareholder or key employee. The premium payments for the policy are paid from after-tax corporate funds and are generally not a deductible expense. Permanent products that build cash value help to reduce the corporation's income from passive investments as the policy growth is tax-deferred while the values remain inside the policy. Corporate-owned life insurance can be used as collateral to secure loans or reassure creditors of the corporation's fiscal viability.
- **Critical illness insurance** can be an ideal solution for a corporation that requires tax-free liquidity in the case of a critical illness or death of a shareholder or key employee. As with life insurance, the maximum issue age will depend on the product selection, although business owners and incorporated professionals who acquire critical illness insurance are typically in the 40–55 age range. The premiums will reflect the underwriting requirements, which will include the insured person's personal health history and that of close family members. In addition to traditional corporate-owned critical illness insurance options, Desjardins Insurance's Executive Health Plan (EHP) provides a well-designed and comprehensive shared ownership structure that allows a shareholder or key employee to own a critical illness policy jointly with the corporation.
- Desjardins Insurance's **Guarantee Advantage®** will appeal to corporate clients who are used to investing in fixed-rate term investments, want to diversify their corporate portfolio and want a guaranteed minimum return on a medium-term investment. In addition, GA is a good investment option for corporate clients who want to defer taxation on their investment for a predetermined period of 4–6 years. As a market-linked term investment product whose returns are tied to a basket of securities in targeted or diverse industry sectors, GA will typically offer a better return potential over traditional fixed-rate term investments. The principal guarantee at maturity can also provide peace of mind for corporate clients who prefer lower volatility.

In order to ensure that key activities for clients and their advisory team are covered during the planning process, there is a checklist for both EPIC activities and steps if pension plans for shareholders are part of the chosen solutions.

Client outcomes using EPIC

When implemented as part of a comprehensive corporate planning approach, the EPIC components can provide the following benefits:

- The adverse effect of the passive investment income rules on the corporation's access to the SBD can be reduced
- The corporation's tax burden can be lowered, which can, over time, result in a significant cumulative tax savings
- Acquisition of insurance—whether life insurance, critical illness insurance or both—gives the corporation access to liquidity in case of death or critical illness of the shareholder or key employee
- If the corporation and a shareholder or key employee decide to adopt the EHP as part of their planning and acquire a Health Priorities - Business critical illness insurance policy owned jointly with the corporation, there can be a non-taxable benefit to a shareholder or key employee[10] if the insured person remains healthy until the end of the coverage period needed by the corporation

[10] In the case of an employee who is not a shareholder, the tax authorities may be of the view that the employee received a taxable benefit by virtue of their employment when the health benefit was paid. The determination of the value of this benefit is a question of fact and clients should consult an independent taxation advisor in this regard.

- The introduction of pension plans for shareholders can, in some cases, provide a shareholder with a higher retirement income than an RRSP, while also offering increased income deductions to the corporation
- Depending on the identified life insurance need and the coverage selected, the amount available to be paid to a deceased shareholder's estate can be increased, providing a larger after-tax estate value than from traditional taxable corporate investments

Adding EPIC to a client's corporate planning

The EPIC advisor toolkit provides advisors and their clients with a straightforward sales process, beginning with the Passive Investment Income Impact Calculator, which can help to identify if the passive investment income rules pose a tax problem to a corporation today or in the near future. In order to ensure that key activities for clients and their advisory team are covered during the planning process, there is a checklist for both EPIC activities and steps if pension plans for shareholders are part of the chosen solutions. Clients will have access to Desjardins Insurance's exclusive EPIC client report, which will be prepared by an EPIC Specialist in consultation with the insurance or financial advisor. In addition, Desjardins Insurance has developed a comprehensive set of marketing and support material that includes client and professional advisor brochures, along with case studies that highlight the advantages of EPIC for different types of business owners.

Glossary

Insurance

Annualized premium: The insurance policy offers different premium payment options. The premium can be paid on a monthly, quarterly, semi-annual or annual basis. The annualized premium is the total amount of the premium paid per year.

Critical illness insurance: This insurance provides for a tax-free lump-sum payment after the diagnosis of one of the critical illnesses covered by your policy. Depending on the contract features, you may be entitled to receive an advance against the coverage amount if you are diagnosed with a less severe critical illness. Potential riders include various return of premium options.

Executive Health Plan (EHP): This is a concept that allows you to own a critical illness policy jointly with your corporation. Your corporation pays the portion of the premiums for the critical illness and death benefits for the needed coverage period. You pay the portion of the premiums for the health benefit. Your corporation will receive a non-taxable lump-sum benefit if you are diagnosed with a covered critical illness or if you die. If you remain healthy, you will get back up to 100% of the premiums paid by both you and your corporation.

Life insurance: The insurance company guarantees payment of a death benefit to the beneficiary upon your death. Many types of coverage are available to fulfill your needs.

Investment

Capital gains or losses: Capital gains or losses represent the difference between the sale proceeds and the adjusted cost base (price paid with adjustments allowed by law). Only 50% of a capital gain is considered as a taxable income inclusion in the year of the disposition. In the case of a capital loss, 50% can be deducted and only against capital gains.

Deposit maturity date: For a deposit in Guarantee Advantage®, the last day of the selected term of the investment period in accordance with the Desjardins Insurance Term investments contract.

Dividends: Sum of money paid regularly (typically quarterly) by a corporation to its shareholders out of its profits (or reserves).

Equity: The shareholders' stake in a corporation, as indicated on a corporation's balance sheet.

Fixed income investments: Secure investments that provide interest or dividend payments until the maturity date. GICs and government and corporate bonds are the most common fixed income products.

Guarantee Advantage® (GA): A Desjardins Insurance term investment whose returns are tied to a basket of securities in targeted or diversified activity sectors. It offers a guaranteed minimum return and the principal is guaranteed at maturity or death. The product provides a potential for a higher return compared to a fixed-rate term investment.

Short-term investments: Investments that can easily be converted to cash within a 1-year period and are considered liquid. Money market accounts, savings accounts, certificates of deposit, treasury bills and government bonds are all examples of short-term investments.

Pension

Pension plans for shareholders: Pension plans for shareholders are registered pension plans that are established by an employer for an individual, either a business owner or an executive, who qualifies as an employee and who owns more than 10% of the corporation's shares. Pension plans for shareholders are defined benefit pension plans structured to provide a specified annual income.

Pension plan corporate annual contribution: The annual contribution amount required to finance the future benefits must be calculated based on a set of assumptions. The calculation must be done by an actuary to ensure the contribution complies with tax rules.

Past service buyback: Buying back past service is a way to make up for years when you earned a salary and did not maximize your contributions to a pension plan. It is possible to buy back past service for years after 1989.

Past service buyback transfer from RRSP: Transfer of amounts in the RRSP into a pension plan to fund the buyback.

Taxation

Active business income (ABI): Generally consists of the main and incidental income that a corporation earns from a business source carried on in Canada, other than income from property, a specified investment business or a personal services business.

Adjusted Aggregate Investment Income (AAII): This is a factor in determining the effect of the passive investment income rules on a Canadian-controlled private corporation. AAII includes interest income, capital gains (net of allowable capital losses from the current year), net rental income, royalties and taxable dividend amounts received by a corporation except for dividends received from connected corporations. Capital gains and losses from the disposition of active assets are not included in the calculation of AAII. Calculation of AAII is complex and must be done on an annual basis to determine a corporation's eligibility for the small business deduction (SBD) (see below).

Canadian-controlled private corporation (CCPC): A CCPC is a private corporation that is resident in Canada for tax purposes and is not a public corporation. It was either incorporated in Canada or resident in Canada from June 18, 1971 to the end of the tax year. A CCPC is not controlled directly or indirectly by one or more non-resident persons or by public corporations.

***Income Tax Act* (ITA):** The federal statute that governs taxation of the income of individuals, corporations, partnerships, trusts and estates in Canada. The provinces and territories also levy income tax. The *Income Tax Act* is amended on a regular basis.

Part IV tax: Part IV of the *Income Tax Act* deals with the treatment of taxable dividends received by private corporations in Canada. The purpose of Part IV tax is to prevent individuals from earning Canadian source dividends through a corporation and deferring taxes on those dividends. This is possible because corporations do not get taxed on dividends from other Canadian resident corporations.

Passive investment income: Generally consists of corporate earnings not directly related to the corporation's active business income (ABI). Passive investment income can come from certain interest types, capital gains, net rental income, royalties or dividend amounts received by a corporation (and by its associated corporations).

Refundable Dividend Tax on Hand (RDTOH): RDTOH is a notional tax account that accumulates the refundable tax paid by a private corporation on its investments and dividend income. The account is refundable when a taxable dividend is paid by the corporation to its shareholders.

Net rental income: This is income, less the eligible deductions, received by an individual, corporation or trust from the rental of real estate or other property.

Royalties: Royalties are considered as monetary compensation to the owner of an asset for the use of intellectual property. Royalties can also be income from investments or a business. Royalties are a way to give investors access to a percentage of future income and to the payment of periodic income of the corporation.

Small business deduction (SBD): The small business deduction is a corporate tax reduction for Canadian-controlled private corporations (CCPCs). The reduced tax rate is available on active business income (ABI) up to the corporation's business limit. The first $500,000 of active business income (ABI) is taxed at a lower rate at the federal level. It is reduced by $5 for each $1 of passive income exceeding $50,000.

Small business limit: On the federal level, the limit is $500,000. This limit can be different for some provinces. The small business deduction will begin to be reduced under the passive investment rules.

Look to the future with confidence
Choose Desjardins Insurance

Choose the strength and stability of a company specialized in life and health insurance and retirement savings that over 7 million Canadians count on each day to ensure their financial security. Backed by over a century of experience, it is also one of the country's leading life insurers.

Choose Desjardins Group, the leading cooperative financial group in Canada and one of the country's best-capitalized financial institutions. Desjardins Group enjoys excellent credit ratings comparable to those of several major Canadian and international banks and is recognized as one of the most solid financial institutions in the world.

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